Review article

DETERMINANTS OF MANAGEMENT CONSULTING IN CROATIA AND HUNGARY – SIMILARITIES AND DIFFERENCES IN LIGHT OF MARKET AND ORGANISATIONAL CULTURE

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ABSTRACT

Due to effects of a continuous globalization processes, fierce competition, and rapid evolution of technological innovations, the business world is facing multiple challenges going through ever increasing changes in terms of technological, political, social and economic determinants. The nature, speed and quantity of those changes require an effective and timely management of organizations in order to achieve their strategic business objectives and attain superior organizational performance. Therefore it is important to recognize problems and challenges and shape a strategy to keep and maintain organizational success. Such a development has contributed to the significance and wide use of Management Consulting in the economy. The engagement of consultants in as early stage as possible can help companies to successfully cope with the problems encountered and thus protect their investments.

The primary focus of this study is to explore how Croatian and Hungarian Management Consulting industries have changed in last decade identifying possible similarities and differences in terms of market and organisational culture in each country. Based on secondary research sources, evolution of administering survey to consultants and micro, small and medium sized enterprises in Croatia and Hungary, this study outlines position and development trends in management consulting exploring following questions: (a) what are differences between two management consultancy's markets?; (b) what are similarities in both markets?; (c) why do *companies use management consultancies?; (d) what are major demand factors for business advisory services?*

In that sense, a comprehensive assessment of the maturity of the consulting market in Hungary and Croatia has been carried out, addressing the changes in consulting services and organisational culture in both countries.

Keywords: *management consulting, organisational culture, entrepreneurship, SME management*

1 INTRODUCTION

The management as a practice of directing and organizing human activities is as old as society itself, but management theory and practice of management consulting are of more recent origin. In that sense, management consulting as a form of supporting managerial decision making processes is less than 150 years old. Actually, its real growth has been note during the 20th century (Poor and Gross, 2003). However, recent rapid development and refinementof management consulting with growth of diversification, transparency, and accountability as emerging trends, have been making giant strides since the 1930s to the present day.

The growth of management consulting industry is in great measure the result of its successful stringent practices with clients in bringing new knowledge as well as consolidation of their roles in confirming or legitimating senior client knowledge and preferences (McKenna, 2006). Also, as a result of overall developments in the society in terms of growth of management discourse in the public, clients are more familiar with certain types of knowledge and tools typically associated with consultants (Kennedy Information, 2004; Kitay and Wright, 2004).

2 MANAGEMENT CONSULTING

In general, consulting is a knowledge-based service that can be sold and bought, but being often intangible, it is difficult to demonstrate its advantages to potential clients. Miles (1999) highlights four important aspects of consultancy:

- human capital and knowledge intensive interactions,
- high degree of intangible activities and services,
- difficulties in standardization of the consulting process and procedures
- intensive interaction between consultants and clients.

According to Schein (1996), consultancy is perceived as a process of a special interaction between the consultant and the client. Therefore, in consultancy, besides recognizing the problem of the client, it is also important to recognize the interaction between consultant and client. Management consultancy is essentially a specific activity of advising managers in solving business problems for which they lack expertise, knowledge and experience. In practice, management consulting helps emerging and maturing professional and dynamic managers who successfully manage change and who know the specific management activities and processes (Wohlgemuth and Treichler, 1995). Characteristics of management consulting for small and medium enterprises are arising from the nature of these enterprises and problems encountered in the process of growth and development, and as well as in the transformation process, for which routine solutions cannot be applied (Barisic, 2012).

Management Consulting is a professional service that helps entrepreneurs to:

- Analyze and diagnose problems and conditions,
- Develop solutions, and
- Implement changes in their enterprises

In providing those services, management consultants are seen as knowledge workers conveying knowledge to the clients. In offering and proposing their advice, management consultants are asked to cover a range of topics, making the perishable facets of their services tangible and lasting. The major management consultancy service categories are traditionally divided into four groups:

- strategy
- human resources
- operations
- information technology

The last two categories have become dominant in the past 10 years worldwide. Further development has expanded the scope of services to customer relations, finance, strategy and supply chain management. (Gross, Poor, 2008). According to the FEACO (2013) definition of management consulting, the most typical management consulting service areas are: strategy consulting, organization, operations management, project management, change management, human resources consulting, knowledge management consulting, coaching, team coaching, information management consulting, development and integration, and outsourcing.

3 MACROECONOMIC ENVIRONMENT OF HUNGARY AND CROATIA

As macroeconomic environment has a profound impact on any trade it also shapes the character of consulting business. In that respect, the main economic and cultural characteristics of Hungary and Croatia have been examined.

3.1 Socio-economic factors

Hungary

The country's area is 93 030 square kilometres. Its population is 9,9M – ageing, decreasing due to unfavourable birth/death ratio and, recently, emigration. Its total GDP amounts to 121 billion USD. GDP/capita is 12 200 USD (Global Competitiveness

Report 2016/17). Wealth inequality (GINI index) is around the European average (EUROSTAT 2015). Human Development Index (HDI), which is a combined indicator of life expectancy, quality of education and per capita income, i.e. is the country a good place to live in, is in the last third of the European league.

Croatia

The country's area is 56 600 square kilometres. Its population is 4,2M – ageing, decreasing. Its total GDP amounts to 49 billion USD. GDP/capita is 11 600 USD (Global Competitiveness Report 2016/17). Wealth inequality (GINI index) is around the European average (EUROSTAT 2015). Human Development Index (HDI) is in the last third of the European ranking. Croatia's competitiveness ranking (World Competitiveness Report) is overall increasing. Currently, it is the 74th out of 138. Basic requirements subindex is stagnating, efficiency enhancer subindex has improved and innovation subindex has stagnated in the past few years.

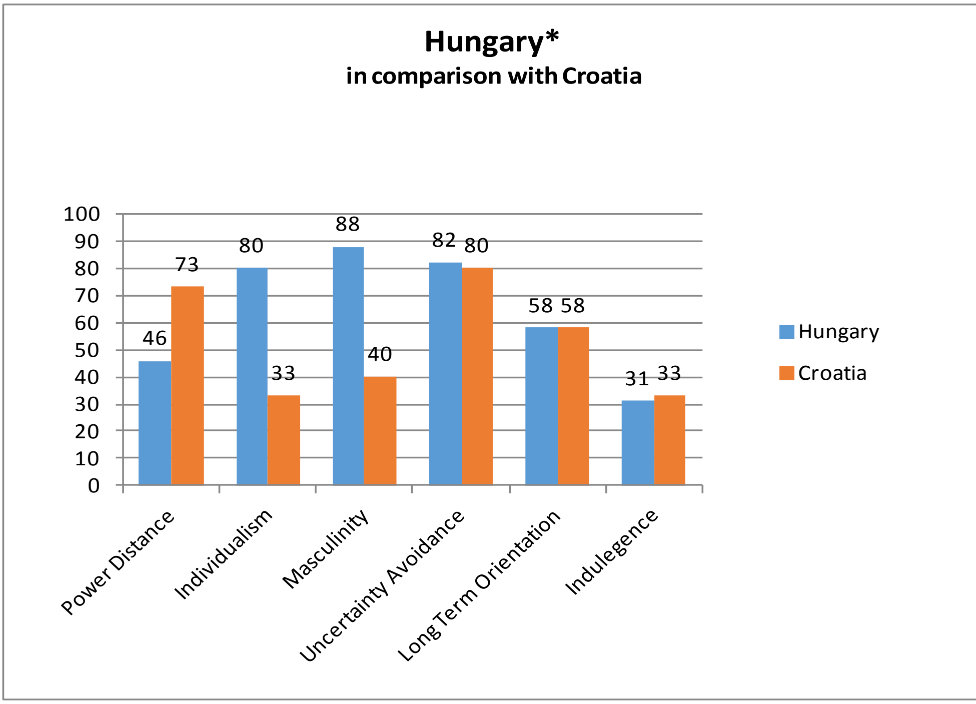
Croatia is about half the size of Hungary both in area and population with similar GDP/capita value. FDI/capita if 1.5 times higher in Hungary – but it does not at all seem to boost its economic position.

3.2 National and organizational culture

The de-culturizing and de-humanizing effect of globalization is not yet complete and there are still cultural differences among countries even in case of neighbouring European countries. Culture – being a humanizing force – is a pervasive rulebook of all activities in the given society. Thus, cultural gaps among countries result in differences in the ways companies work. Studying national and organizational culture Hofstede (2001), has developed indicators for measuring national cultures: power distance: individualism, masculinity, uncertainty avoidance, long term orientation and indulgence, where Hungary is characterized by mediocre power distance, high individualism, very high masculinity, mediocre long term orientation, and very low indulgence.

Hofstede's researches show that in Croatia power distance is large, collectivism is strong, masculinity is low, uncertainty avoidance is high, long term orientation is medium and indulgence is low.

Diagram 1: Comparison of cultures



Power distance is remarkably smaller in Hungary, while individualism and masculinity are much higher. Uncertainty avoidance is equally high in both countries, long term orientation is equally medium and indulgence is low.

4 CONSULTING MARKET

Croatia

Alpeza et al. (2014) carried out a comprehensive study of the Croatian consulting market. The study shows that in Croatia, small and medium sized enterprises employ two thirds of all employees and produce over half of GDP. Still, their cumulated result is a significant net loss. Large companies – mainly multinationals – employ the rest of the people and cumulate an overall net profit. This leads the authors to the conclusion that there is a lot of room to improve business efficiency of SMEs, in other words, this should be a target area for the consulting trade. Unfortunately, the overall poor profitability of the SME sectordoes not leave much money to spend on consultants. State subsidy would be necessary, but this rarely happens.

Consulting infrastructure established to support the development of the MMSP sector in Croatia consists of Enterprise Support Institutions (PSIs) and private professional consultancy firms. PSIs such as regional development agencies, entrepreneurial centres, business incubators, business and technology parks, and business zonesare primarily aimed at providing information and consulting services related to business plan development and writing project applications for the public tenders issued by different governmental agencies. Services provided by PSIs are delivered under more favourable financial conditions and in that sense they are unfair competition to the professional consultants. In addition, professional consultants, unlike most PSIs, provide more complex and specialised consulting services.

There are 2.799 private consulting companies registered in Croatia of which more than half are registered in Zagreb, the capital city of Croatia.

The total revenue of consulting businesses is 63M EUR. Half of this sum is generated by the top four consulting firms: KPMG. PWC, Deloitte and Austrotherm. Most consulting firms are in the MSME category. Within the MSME (micro, small and medium sized) consulting companies 82% are micro (with consultants less than 10), the rest are small or medium sized. They most often have three employees and majority of them are owned by locals. At most 4 consultants have extensive general knowledge and cover a wide range of consulting services (business and marketing plans, investment studies, project proposals for various incentives, loans, EU funds, and business and investor search). On the other hand, there is insufficient number of consultants with narrowly specialized knowledge which causes weak coverage of some of the problematic areas that MMSP recognizes as important to resolve in their business activities.

More than two thirds of all operating consulting companiesare oriented purely towards the domestic market.The typical issues the consultants must deal with are:

- Various legal issues
- Problems in financial management
- Problems in sales and marketing
- Procuring a loan
- HR issues
- Writing plans and projects.

78% of enterprises have not hired any consultant in the last three years and only 13% turned out to be repeated users. 72% of users found consultants by recommendation or word of mouth. Any other channel is very unlikely.

As it is reported in the study, clients areless than satisfiedwith the performance of the consultants employed; only 43% of them would repeat the cooperation with the same client. Criteria of valuation of the consultant’s performance are:

- understanding of business problems,
- expertise, knowledge,
- speed of feedback,

- communication during cooperation,
- value perceived for the price,
- usefulness of cooperation,
- overall results.

The areas users were the least satisfied with: results (the last three of the above list). The conditions under which clients would consider using the services again:

- if they were sure to benefit from the services,
- cheaper pricing of consultants,
- get a free sample advice first and then decide on the continuation of the cooperation.

Most respondents believe that if they decided to use a consultant it would be in connection with:

- issues in project and plan briefing,
- business planning,
- seeking business partner and investors,
- market research and marketing,
- saving energy and ecological issues,
- IT and related issues.

Most clients see using of consultancy services as a short term job. More than 60% expects cooperation for a timeframe shorter than two years.

MSME segment remains a target for Croatian consultants because of its large unexploited potential. The problem is lack of consultants with specialised expertise. Another challenge is engagement of unskilled consultantsdue to low entry barriers whichdamages the reputation of the consulting business. Developing trusting relationship between client and consultant is a great challenge for future development.

Hungary

Overall turnover in the consultancy industry was 235 million EUR in 2012. With traditional consulting firms, atypical large consulting companies can be found, as well as a medium-, micro-, and mini-advisory enterprises. The Management Consulting clients fall under three sectors which are: industry, banking sector and public sector. The distribution of consultancy industry turnover is: 9%, banking and insurance 14%, public sector 31%. It should be noted, the public sector's orders are slowly rising. The most developments were in the financial and insurance industry over the last five years.

According to the Hungarian Central Statistics Office, the total number of companies registered for business and management consultancy services in 2012 is 500 and the total number of employees is 4580.

According to Poór (2013), the majority of consulting firms are micro or small sized (69%). Typical areas of consulting are:

- operations and organizing,
- project management,
- strategy,
- HR issues
- IT.

Main methods of consulting are:

- process consulting,
- advisory consulting and
- inquiry consulting (Józsa, Vinogradov, Poór, 2016)

Over 70% of respondents claim that the reputation of consulting firms has not changed or deteriorated in the past 1-2 years. Most clients (57%) expect no improvement or further deterioration in this area. For the coming years, most respondents expect stagnation in revenue in most operational areas of consulting.

Competition amongst consulting firms is steadily intensifying. The extension of average projects is shrinking. Communication between clients and consultants does not satisfy the requirements of achieving a level of success.Unskilled consultants have great responsibility for the unsatisfactory overall image of consulting profession.

Government policies and state subsidies have a tremendous impact on the consulting business. The condition of consulting companies is further aggravated by the unfavourable economic situation.

The lobbying power of consulting is slight. There are remarkable improvement opportunities in the cooperation, communication and two-way knowledge transfer between consultants and clients.

5 CONCLUSION

While Hungary's competitive position is in constant relapse, Croatia seems to be able to improve its position. Higher capital import does not appear to better Hungary's economic health. Strong collective attitude might be a reason for Croatia's advancement. People in both countries – for cultural reasons - are unprepared for happiness. Competitiveness is measured by the Global Competitiveness Report. There are authors who claim that this report tends to sometimes overvalue or undervalue actual competitiveness (Djogo and Stanisic, 2016).

The overall spending on consulting is a small fraction of what Western European countries spend on consulting services.

Large consulting firms rule the market of large clients leaving only small clients to small domestic consulting firms. MSME clients are having grave financial problems in both countries. Competition is ever strengthening, forcing consultants into miserable pricing or exaggerating promises of results. Post-bureaucratic managers have also become consultants within their companies (Sturdy, Wright and Wylie, 2014).

Bronnenmayer, Wirtz and Göttel (2016) claim that critical success factors for management consulting are: originality (value), intensity of collaboration, common vision, consultant expertise and top management support.

Problems are exacerbated by the lack of thorough filtering out of weak consultants. The intervention of unskilled consultants causes remarkable harm to the reputation of serious consulting enterprises.

In consideration of the above issues, it is easy to see that consulting is far from flourishingin these countries.

In that respect consultants in both countries have to:

- Focus their services on key issues identified by MMSP sector as important for achieving their business success such as legal issues, financial management issues, and marketing and sales issues;
- Provide consultancy services offering various payment modalities reflecting readiness of consultants to participate in acknowledging the risk of decision making as a consequence of their advice, as well as confidence in the ability to provide support in solving problems and developing business operations;
- Develop narrow specialization through the identification of their own areas of expertise - based on their own experience and knowledge, and the market potential that has been especially recognized in the following areas: energy promotion and environmental protection measures, introduction and upgrading of computer systems for information management, implementation, and certification of quality management systems, accounting and control systems, engineering studies, implementation of modern human resource management systems, etc.

DETERMINANTE MENADŽMENT KONZALTINGA U HRVATSKOJ I MAĐARSKOJ – SLIČNOSTI I RAZLIKE U SVIJETLU TRŽIŠNE I ORGANIZACIJSKE KULTURE

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SAŽETAK

Zbog učinaka kontinuiranog procesa globalizacije, žestoke konkurencije i brzog razvoja tehnoloških inovacija, poslovni se svijet suočava s višestrukim izazovima prolazeći kroz sve veće promjene u smislu tehnoloških, političkih, društvenih i ekonomskih determinanata. Priroda, brzina i količina tih promjena zahtijevaju učinkovito i pravodobno upravljanje organizacijama kako bi ostvarivale svoje strateške poslovne ciljeve i postizale vrhunske organizacijske performanse. Stoga je važno prepoznati probleme i izazove te oblikovati strategiju za očuvanje i održavanje organizacijskog uspjeha. Takav razvoj je pridonio značenju i širokoj upotrebi menadžment konzaltinga u gospodarstvu. Angažman konzultanata u što ranijoj fazi može pomoći tvrtkama da se uspješno nose s problemima s kojima se sreću i time zaštite svoja ulaganja.

Primarni fokus ove studije jest istražiti kako se u posljednjem desetljeću promijenila hrvatska i mađarska poslovna savjetodavna industrija identificirajući moguće sličnosti i razlike u smislu tržišne i organizacijske kulture u svakoj zemlji. Na temelju sekundarnih izvora istraživanja, evaluacije provedbe ankete među konzultantima i mikro, malim i srednjim poduzećima u Hrvatskoj i Mađarskoj, ova studija ukazuje na poziciju i razvojne trendove u menadžment savjetovanju istražujući sljedeća pitanja: (a) koje su razlike između dvaju konzultantskih tržišta; (b) koje su sličnosti na dvama tržištima; (c) zašto tvrtke koriste menadžment konzalting usluge; (d) koji su glavni faktori potražnje za poslovne savjetodavne usluge?

U tom je smislu provedena sveobuhvatna procjena zrelosti tržišta konzalting usluga *u Hrvatskoj i Mađarskoj, apostrofirajući promjene u konzultantskim uslugama i organizacijskoj kulturi u obje zemlje.*

Ključne riječi: *menadžment konzalting; organizacijska kultura; poduzetništvo, upravljanje malim i srednjim poduzećima*

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